

# Comparison between Classical Liberalism and Keynesianism---Keynes Is Interested In the General Theory of Employment, Interest and Money

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| Received: 06.11.2021 | Accepted: 12.12.2021 | Published: 30.04.2022

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## Abstract

Both classical liberalism and keynesianism play an important role in human economic history. There are some relevant research results interpreted the two together. However, the differences between the two are the focus of previous scholars, therefore, the research on the similarities and connections between the two is ignored, or the two are completely opposite. Reinterpretation of the general theory focuses on discovering the relationship between tradition and innovation, giving people new understanding and enlightenment.

**Keywords:** Classical liberalism, Keynesianism, Compare.

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## 1. INTRODUCTION

In british history, classical liberalism was formed during the industrial revolution in the late 18th century, while keynesianism rose after the world economic crisis in the early 20th century. Both economic theories have had an important impact and shock on the british economy and even the world economy. Through the thought of classical liberalism, britain first knocked on the door of modernization. Through keynesianism, britain established and improved the welfare state. Samuelson, a contemporary bourgeois economist, also praised in his works: "just as galileo, newton, einstein and planck changed physics, smith, marx, marshall, keynes and the names on the economist spectrum at the end of the second volume of this book transformed economics [1]". In his works, steven pressman called "john maynard keynes, adam smith and karl marx as the three leading figures in the history of economics [2]". Keynesian thought appeared relatively late, one of which is the general theory of employment, interest and money published in 1936 (hereinafter referred to as the general theory), which can be used as a starting point for a comprehensive macro understanding and research on the two theories.

## 2. Main contents and features of this book

There are many chinese versions of keynes's general theory, which was first published by sanlian bookstore, later, it was republished by the commercial press in 1963. The version is better and more consistent

with the original work. Xu yuping had the most direct connection with keynes in his personal learning experience, and he was excellent in both professional background and english translation. Although this edition seems a little old, it is the earliest, groundbreaking chinese translation and the most classic. It has been printed and published many times. General theory consists of six parts and twenty-four chapters. The first part is the introduction, which mainly introduces the social background of the formation of keynesian economics, the second part is the basic definitions of some economic fields, the third to fifth parts are specific theoretical contents, which are explained in detail from three parts, consumption, investment and currency. The sixth part is the thesis related to keynesian economics and a chapter conclusion, which looks forward to the impact of social philosophy in the future. It can be seen that the original work of general theory is a pioneering masterpiece. There are many terms and principles of economics. The clues of the original work are unclear and the structure is complex. It is a little difficult to understand and control with the author's research skills and academic background. Since the publication of general theory in 1936, it has attracted extensive attention and debate, and people have different comments on it. Therefore, there are a large number of western research works and papers on keynesian economic theory, which can be appropriately selected as supplementary reading to deepen the understanding of keynesianism. The

supplementary reading content can involve some introduction to the general theory, keynes's personal growth experience and classical liberalism. Mainly based on the research results of chinese economists, one can objectively analyze and comment on western economic theories from the perspective of chinese scholars. Second, we can combine the research focus of history and economics. When economics and history are combined, a broader perspective is quite changed. Economics focuses on the excavation of the depth of economic thought, while history focuses on the expansion of the breadth of economic thought. When the two are used properly, they can give full play to their maximum advantages. We can fully understand the horizontal relationship between keynesianism and different theories in history, and its profound theoretical connotation. This helps to find the source of keynesian theory. There is no clear and ready-made answer to the relationship between classical liberalism and keynes, however, some less obvious connections can be seen in the introduction and content of the general theory, so it needs to be excavated on the basis of further reading.

### 3. Freedom and Intervention

As mentioned at the beginning of this paper, there are obvious differences between classical liberalism and keynesianism in the period of emergence and role.

The emergence and implementation of each new economic thought contains complex contents. In order to have a clearer and macro understanding of the contents of these two economic thoughts, each economic thought can be subdivided into three levels, method, theory and policy. Method is the source of new thought, and theory is the basis of new thought, policy is the way to implement new ideas.

The three together constitute the internal logical connection of economic thought [3]. The connotation of classical liberalism is embodied in the theory of moral sentiment published by adam smith in 1759 and the wealth of nations published in 1776. Its core purpose is to solve the source of national wealth growth and find the reasons for national wealth growth. This can promote the steady growth of national wealth and achieve the goal of making the country rich and the people strong. In theory, adam smith opposes the mercantilist theory that takes money and trade as the source of national wealth growth, and believes that production is the source of national wealth growth. Farmers and workers obtain wealth through labor, factory owners obtain wealth through funds, and landlords obtain wealth through land. Therefore, it is concluded that labor, capital and land are the fundamental sources of national wealth. The agricultural and industrial products they produce must eventually be exchanged in the market in order to truly realize the growth of total value. The market price is affected by the relationship between supply and

demand. When demand exceeds supply, the market price will rise automatically. When demand is less than supply, the market price will fall automatically. The relationship between supply and demand ensures the stable operation of the market by automatically adjusting the market price. When prices become market guards, individuals will also make judgments based on price changes and carry out production without overproduction or shortage. Therefore, in order to maximize the growth of national wealth, the most effective economic policy is to implement the laissez faire economic policy without government intervention. On the contrary, if the government must intervene in the market, it will disrupt the operation law of the market itself, which is not conducive to the normal operation of the market, the theoretical source of the implementation of laissez faire economic policy is to quote locke's liberalism to the economic and social field. The development of individual sovereignty, self-interest, rationality, private property rights, self-regulated market and spontaneous order are the theoretical basis of classical liberalism [4]. Classical liberalism has gone through a comprehensive and positive liberalism development path from individual to country, from politics to economy. Liberalism, state non intervention and production efficiency form a close logical cycle. Similarly, the internal logic among the contents of keynesianism can also be summarized through the general theory and its introduction. When keynesianism was formed, the british economy experienced an unprecedented global economic crisis. In the face of the crisis, alfred marshall, a representative of the cambridge school of thought in britain in the late 19th century and a successor of classical liberalism, asserted that the economic crisis was only a partial or accidental destruction of the equilibrium. The economic crisis would neither be very serious nor last for a long time, and the government did not need to intervene. Although there was a similar economic crisis in britain in the 19th century, this time there were a large number of unemployed people and involved the unemployment of workers in britain's traditional industries. It was impossible to get out of the dilemma by market self-regulation alone. Keynesianism finally found a way out of the dilemma. Keynes believed that the root cause of capitalist unemployment is the lack of effective demand, the increase of effective demand is closely related to the six variables of national economic income, employment, consumption, investment, interest rate and currency. Among them, the first five variables are internal variables, and the last variable is external variables. The problem of classical freedom is that it only pays attention to the importance of production and ignores the importance of consumption. Especially after the industrial revolution, the production speed is accelerated. If the products produced are not what consumers need, there will be backlog and waste, which will not reflect the value of the products. Therefore, the policy prescription to solve the shortage of effective demand is state intervention. The means of state

intervention is to stimulate consumption with external variable monetary policy, the theoretical basis for the implementation of fiscal and monetary policies is the non neutrality of money and the exogenous nature of money supply, that is, money not only determines the level of price, but also affects the adjustment and change of real economic variables such as real interest rate and output level. There is also an internal logical cycle among money quantity, state intervention and effective demand. It can be seen from the above that classical liberalism emphasizes the importance of production and advocates laissez faire microeconomics, keynesianism emphasizes the importance of effective demand, which is a macroeconomics advocating state intervention (whether macroeconomics started from keynesianism is still controversial). Professor liu diyuan, an expert in chinese western economics, believes that the main contribution of keynesianism is to realize two major changes. One is to realize the transformation from external cause theory to internal cause theory since classical liberalism from the perspective of solving economic problems. Second, in terms of economic policy, it has realized the transformation from laissez faire policy to government intervention policy [5]. He recognized the innovation of keynesianism from other angles and provided us with useful inspiration.

#### 4. All Roads Lead To Rome

Keynesianism and classical liberalism certainly have many obvious differences, but this difference is limited to the differences in surface and content, and only realize that the differences between the two are biased, static and narrow. In the preface of the general theory, keynes said: "the work of this book is a long-term struggle for the author to get rid of traditional ideas and statements. In the preface of the general theory, keynes said: "this book is a long-term struggle for the author to get rid of traditional ideas and statements. If the author's efforts are not vain, most readers will feel the same when reading this book. This shows the contradictory psychology of being unable to give up traditional theories". Professor hu jichuang of shanghai university of finance and economics believes that keynes could not betray the classical tradition [6]. Liu diyuan also pointed out that his general theoretical system of employment is a new economics, although it seems novel and unique, as far as its substantive content is concerned, whether it is its theoretical basis, exploration ideas and demonstration structure, or the specific forms of its economic categories, most of them can be traced back to its ideological origin more or less [7]. A considerable part of the ideological origin here comes from classical liberalism. First of all, any great theory that can affect the historical process is not produced out of thin air. As newton said, if I see farther than others, it is because I stand on the shoulders of giants. Keynesianism also originated from the old theory. Keynesianism could not have come into being without the accumulation of continuous attempts and

even setbacks of previous classical liberals and their successors. Hu jichuang believes that keynes actually began to pay attention to unemployment long before the economic crisis [8], the reason why keynes has the ability to predict economic problems in advance is not that keynes has any special function, but that keynes is good at understanding and analyzing the old theories. keynes partially broke away from the thinking mode of the old theory and speculated on the general trend of future economic development. After all, there has been a cyclical economic crisis before, but we have not jumped out of the original thinking set and found an effective way to solve the problem. In chapter 24 of the general theory, keynes pointed out the relationship between himself and the classical school. He said: "our criticism of the theory of the classical school is not to find any logical errors in its analysis, but to point out that several implicit assumptions on which the theory is based are rarely or never satisfied, so we can not use the theory to solve practical problems" [9]. It shows that keynesianism did not veto the correctness of classical liberalism theory and its important role in history. The reason for creating a new theory is that the old theory is a special column and must exist under certain conditions. Under the condition of shortage economy, the old theory is fully applicable, but under the condition of overproduction, the old theory not only does not work, but also hinders the development of economy, so there should be a breakthrough new theory, from this point of view, keynesianism is not only the gravedigger of the old theory, but also the promoter of the continued development of the old theory. Keynesianism plays a dual role in classical liberalism. Is this way of critical inheritance a return and unity of freedom? The old theory is the source of keynesian theory, which can also be proved in some contents of keynesian theory. Secondly, keynesianism overlaps with classical liberalism in content. In the general theory, one of keynes's core views is to emphasize the importance of government intervention policy, which has also become an aspect concerned and emphasized by later scholars to prove the innovation of keynesianism. But the result has gone to the other extreme, gradually opposing the state intervention and the market economy in liberalism. In fact, keynes did not deny the regulatory role of the market economy. He has expressed it in many works, of course, there are several things that are now in private hands and will be centrally managed by the state, but many activities are not affected [10]. It even puts forward the mixed economy of the combination of market economy and state intervention. Modern classical schools have also aroused attention. Under several circumstances, economic forces cannot be freely used and must be restrained or guided by the government. However, there is still a large garden that can be managed and instigated by the private sector, within this garden, the traditional advantages of individualism continue to exist [11]. The only way to achieve full employment is to leave investment to society, but this is not without room

for compromise. There are still many ways for the state authority and private forces to cooperate with each other. It can be seen that engels' doctrine is not equal to the policy of state intervention. To a large extent, keynes also inherited the market economy theory in classical liberalism, because the two should complement each other and be indispensable in economic development. On the one hand, government intervention can make up for the defects of market economy, that is, when the market fails and the relationship between supply and demand is unbalanced, state intervention can adjust the relationship between supply and demand to balance, on the other hand, market economy is the basis of state intervention. The implementation and effect of government intervention in economic policy should be based on the operation of market economy. In fact, the relationship of the unity of opposites between the two is also implied in the general theory. In the future, when problems in the economic field of all countries in the world need to be solved, they often take a combination of the two measures to solve them. Finally, from the effect of their implementation, they have also gone through the same path. To a certain extent, both of them have achieved the expected purpose and made great achievements. They have a milestone status and influence in the field of economics. Moreover, after they have made certain achievements and solved certain problems, they have produced new problems. The laissez faire policy of classical liberalism not only accelerated the rapid development of british industrial economy, but also brought about a series of social problems caused by the widening gap between the rich and the poor. Keynesianism advocates that state intervention expands effective social demand through appropriate fiscal deficit, which alleviates the problems caused by economic crisis and brings serious inflation. Neither of them has completely eradicated the economic crisis in capitalist countries, the reason is that smith and keynes have the same views on capitalism, as steven presman said, smith could be regarded as an optimist, he believed that economic progress was the main achievement of capitalism. Keynes not only recognized the advantages of capitalism, but also saw its defects. Keynes hoped to alleviate the disease of capitalism by means of economic policy. He believed that the government's wise policies could save capitalism, letted us enjoy its benefits and avoided its dark side [12]. It can be seen that the difference between the two is only based on the ways and means of economic problems in different historical periods, neither of them found that the root cause of the economic crisis was the private ownership of means of production, therefore, the two are essentially the same, which always can not get rid of the pattern of reciprocating cycle of solving old problems and generating new problems at the same time. From the above aspects of origin, content and effect, we can see the similarities between classical liberalism and keynesianism, and also find the connection point between them. The essential purpose

is not to erase their contributions in history, but to eliminate the gap between them due to human research tendency, present the overall picture of uninterrupted economic development and find the general law of economic development.

## 5. CONCLUSIONS

Keynes and his general theory are not perfect. As mentioned earlier, the general theory is not perfect in structure. It is not discussed in the way of raising problems, analyzing problems and solving problems, which brings some difficulties to readers. In terms of content, because it is pioneering, it has created a large number of new economic concepts, which aggravates the difficulties in understanding. Because the problems to be solved at hand are urgent, it is inevitable to omit the contents discussed, such as the problem of resource distribution and fair employment. This can be reflected in the great debate between eastern and western scholars on keynesianism. However, these are not enough to deny the important role of keynes's general theory in the field of economics. The emergence of these deficiencies has become the cornerstone and driving force for the continuous development of economics. The comparison between liberalism and keynesianism has both differences and similarities, but the focus should be on the similarities between them. The purpose is not to deny keynes's great role and contribution to the economic theory and economic development of the world and britain. These differences highlight the innovation and continuous development of keynesianism on the basis of classical liberalism. The concern about the similarities between the two is not just because it is a problem that we are particularly easy to ignore. More importantly, the search for the similarities between the two aims to find keynes's path to treat and solve economic problems, which is conducive to improving our ability to correctly face and solve future new economic problems. The factors involved in economic development and economic problems are very complex, and the process of economic development is unpredictable. The mature economic principles in any period cannot solve all new problems with economic development like the universal formula. In the face of new problems, what we should analyze more is that in these old theories, those can be inherited for today's use, and those must break through the tradition and innovate. We should not be complacent in our achievements in economic development, and economic ideas and policies should keep pace with the times. Innovation is the perpetual motive for promoting economic development, but innovation is also inseparable from tradition, if you completely deny the tradition, you can't really innovate, because tradition is the foundation of innovation. Without tradition, innovation is a castle in the air and cannot last long. These are the greatest wealth left to the world by keynes's general theory.

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